



BL O/227/06

10<sup>th</sup> August 2006

## PATENTS ACT 1977

BETWEEN

International Fuel Technology Inc.

Claimant

and

Ian Williamson & Clifford Hazel

Defendant

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### PROCEEDINGS

Reference under Sections 12 and 37 of the Patents Act 1977 in respect of UK Patents GB2361931 and GB2361932 and corresponding foreign patent applications claiming priority therefrom including EP01925713.8 and others

HEARING OFFICER

Peter Back

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### Decision on costs

- 1 A reference under Sections 12 and 37 of the Patents Act 1977 was filed by International Fuel technology Inc ("the Claimant") on 31<sup>st</sup> January 2005 and a counterstatement was filed by Ian Williamson and Clifford Hazel ("the Defendants") on 29<sup>th</sup> July 2005.
- 2 In a letter dated 4<sup>th</sup> November 2005 the Claimant's representatives informed the Patent Office and the Defendants that the entitlement claim was withdrawn. Subsequently, in a letter dated 18<sup>th</sup> April 2006, the Defendants asked for their costs in full.
- 3 The Claimant was given until 11<sup>th</sup> May 2006 to submit comments on the Defendants claim for costs. In a letter dated 11<sup>th</sup> May the Claimant asked for an extension of two weeks to submit these comments. The Defendants opposed the request and both parties agreed that this issue should be decided by me on the papers. In a decision dated 24<sup>th</sup> May 2006 [BL O/132/06] I granted such an extension and the Claimant submitted its comments on the 25<sup>th</sup> May. The Claimant has indicated that it agrees to the issue of costs being decided on the papers and, in a letter dated 14 July 2006, the Defendants also agreed to the matter being decided on the papers.

## Background

- 4 As stated in the Patent Hearings Manual, where proceedings collapse before the substantive hearing because the claimant withdraws, the hearing officer may still need to decide whether to award costs against the claimant before the proceedings can be finally disposed of.
- 5 It is long-established practice for costs awarded in proceedings before the comptroller to be guided by a standard published scale. The scale costs are not intended to compensate parties for the expense to which they may have been put but merely represent a contribution to that expense. This policy reflects the fact that the comptroller ought to be a low cost tribunal for litigants, and builds in a degree of predictability as to how much proceedings before the comptroller, if conscientiously handled by the party, may cost them.
- 6 The scale is not mandatory. The hearing officer has the power to award costs off the scale where the circumstances warrant it. In extreme cases, costs may even be increased to the extent of approaching full compensation, or be reduced to zero. This flexibility should be used to deal proportionately with, for example:
  - a) delaying tactics, failure without good cause to meet a deadline, or other unreasonable behaviour, particularly where the other side is put to disproportionate expense;
  - b) a claim launched without a genuine belief that there is an issue to be tried;
  - c) seeking an amendment to a statement of case which, if granted, would cause the other side to have to amend its statement or would lead to the filing of further evidence, if the amendment had clearly been avoidable;
  - d) costs associated with evidence filed in respect of grounds which are not pursued at the substantive hearing (though a party should not be deterred from dropping an issue which, in the light of the evidence filed by the other side, it now realises it cannot win);
  - e) unreasonable rejection by the party that eventually loses of efforts to settle the dispute before the proceedings were launched or a hearing held;
  - f) unreasonable refusal by that party to attempt alternative dispute resolution;
  - g) unnotified failure to attend a hearing;
  - h) breaches of rules;

and the increase or reduction should be commensurate with the extra expenditure incurred by the other side as the result of such behaviour. The above is, of course, not an exhaustive list and each case must be considered on its merits. It should however be emphasised that merely because a party has lost or has withdrawn from the proceedings does not of itself mean that their behaviour in fighting the case was unreasonable: it only becomes unreasonable if it was fought in a way that incurred unnecessary costs.

### **Costs**

7 As I have said, the Defendants have asked for their costs in full. Thus it seems to me that the questions I must consider are:

a) Is an award of costs appropriate?

b) If so, has either party behaved in a way that justifies departure from the standard scale?

c) If so, to what extent should I depart from the scale?

8 Clearly, if the answer to any of these questions is “no” then it is unnecessary to consider the subsequent question(s).

### **Is an award of costs appropriate?**

9 With regard to the first question, the Claimant has withdrawn its claim and I am satisfied that in line with normal practice an award of costs against the Claimant is justified. Accordingly I will now consider whether any departure from the standard scale is appropriate in the circumstances of this case.

### **Is departure from the standard scale justified?**

10 I will need to take account of the factors set out in paragraph 7 above which largely go to the reasonableness or otherwise of the Claimant’s behavior in the case.

11 The Defendants have referred me to factors a) and b) in paragraph 7 above and are seeking to persuade me that the Claimant’s conduct “*has been wholly unreasonable throughout*”. They say that they have incurred costs in excess of £6,000 and argue that the Claimant should be ordered to pay costs in “*at least this sum.*”

12 In support of their position regarding paragraph 7 a) above, the Defendants have alleged that having made serious allegations against them, the Claimant failed to file any evidence in support of its allegations and ultimately withdrew the proceedings. They also refer to an occasion on which the Claimant failed to meet a deadline for submitting evidence.

13 The Defendants also allege that the Claimant made “*serious allegations*” against them which the Claimant “*now accepts were not only unjustified, but were also disproved by documents that were in its own possession*”

- 14 The Defendants refer to the Claimant having commenced separate proceedings against them in the High Court. They state that the Claimant withdrew the current proceedings for what appears to be the same reason they withdrew these proceedings. According to the Defendants, the Claimant subsequently consented to a Court order requiring it to pay the Defendants' costs of the High Court proceedings on the indemnity basis which the Defendants say is an implicit recognition by the Claimant that its conduct in bringing those proceedings had been wholly unreasonable.
- 15 The Claimant has argued that the Defendants could have done a number of things to limit their costs. They argue that the Defendants "elected not to entertain negotiations" to reach a settlement and that they filed an "unusually detailed counterstatement". They also argue that the Defendants changed their representatives and that the counterstatement involved input from both old and new representatives and this, they argue, resulted in "multiplication of costs".
- 16 Perhaps more significantly, the Claimant argues that it withdrew the proceedings as soon as it became apparent that their prospects of succeeding were limited and before either party had been put to the expense preparing and submitting evidence. They say it was only when certain documents came to light that they were advised not to proceed and that these documents were papers uncovered from an employee who subsequently left their organization. They maintain that when the proceedings were commenced, those documents had not been unearthed.
- 17 I think the reasons for, and the timing of, the Claimant's withdrawal is the primary issue in this case. Withdrawing proceedings launched in good faith as soon as possible after it becomes clear that the prospects of success are limited is not necessarily something which should be penalized by an off-scale award of costs. However, the Defendants have alleged that the Claimant's employee referred to above was a **director** of the Claimant, who left the Claimant in April 2005, after proceedings had been commenced, and who remained as the Claimant's company secretary in any event. They maintain that it was incumbent on the Claimant to make proper enquiries of its own directors before commencing proceedings.
- 18 I have looked very carefully at all subsequent submissions from the Claimant and I can find no denial of this allegation, indeed although they refer to many points made by the Defendants, they do not touch and their allegations with respect to this director and the Claimant's duty to make proper enquiries. In the absence of any such denial, I think I must accept that the Claimant withdrew its claim in the light of documents which were in the possession of a director of the Claimant at the time the proceedings were launched and which did not come to light until some 9 months after the proceedings were launched and after the Defendants had prepared and submitted their counter-statement.
- 19 Given the Claimant's lack of submissions on this point I am left with no clear indication of the efforts they may have made to test the strength of their case, but for documents that must have seriously undermined the strength of their case to have been in the possession of a director of the Claimant and to have gone undetected for so long does suggest some lack of care on the part of the

Claimant.

- 20 The Defendants have argued that it was incumbent on the Claimant to make proper enquiries of its own directors before commencing proceedings and on the basis of the papers before me I have come to the conclusion that they have not discharged that duty as thoroughly as they should. Whilst I would not put this as strongly as “wholly unreasonable” as the Defendants do, I do think it is sufficient to justify some departure from the standard scale.

**To what extent should I depart from the scale?**

- 21 The only remaining question is the extent to which a departure from the scale is justified. In this case, an award of costs on the standard scale would be of the order of about £500. The Defendants have asked for at least £6000. I have been presented with three invoices relating to the Defendants’ first representatives which total £3895.14 including VAT and a statement from their current representative which relates to a further £3000 also including VAT. What I do not have is any detailed breakdown of these costs which in the case of the invoices was redacted since it “contains privileged material”. Nor do I have any way of knowing whether any of the work done also related to the parallel High Court proceedings.
- 22 The Claimant has proposed that if an award of costs is made against them it should not exceed £3000, which happens to represent the cost said to have been incurred by the Defendants’ current representatives; although I do not know whether this influenced the Claimant’s figure.
- 23 In summary, allegations made by the Defendant, which have not been denied by the Claimant, suggest that the Claimant used rather less care in preparing its case than one might reasonably expect, specifically in terms of failing to uncover in good time, documents which subsequently persuaded the Claimant to withdraw. Whilst I am satisfied that this is sufficient to justify some departure from the scale, I do not consider that it merits costs approaching a full indemnity basis.
- 24 Accordingly I award the Defendants the sum of £3000 as a contribution to its costs to be paid by the Claimant not later than 7 days after the expiry of the appeal period. If an appeal is lodged, payment will be automatically suspended pending the outcome of the appeal.

**Appeal**

- 25 Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal must be lodged within 28 days.

**Peter Back**  
**Divisional Director acting for the Comptroller**